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INVESTMENT OF AMERICAN CAPITAL IN LATIN-AMERICAN COUNTRIES

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Interest in foreign investments is a new feature, comparatively speaking, in American business. Until recent years the United States sought capital and had no reserve to offer for financing enterprises beyond its own borders. Word of golden opportunities, promising returns even beyond those anticipated from the domestic field, was met by the objection that American savings should be employed as a matter of patriotic principle in American undertakings, and that every bridge or railroad or street-car line built in a foreign country meant one less at home, of which we stood in greater need. Under such conditions it was natural that our regard for our sister republics was sentimental rather than practical, and that however much we might declaim against political or territorial aggression threatened by foreign powers, we had no objection to the assumption by our neighbors of obligations for current needs, as well as improvements, which placed them under the control of influences far more real than our proclamation of an international doctrine. The story of the first century of Latin-American independence was then, like our own, a record of improvements made by the goodwill of financiers in London and Paris, under bond-issues marketed in competition with our own demands.

The result was a matter of course. English capital provided for the construction of railway lines for bringing down the coffee crop of Brazil for shipment, largely to the American market; English capital made possible the harbor improvements, the sanitation of the cities, the extension of credit upon the season's crop, the arrangement of the national finances so as to meet deficits arising from lack of resources, extravagance or inexperience in many places. Similarly in the River Plate republics, Argentina and Uruguay, it was English capital that made possible the opening of vast tracts to cultivation, the transportation of the crop to the seaports, the economical handling and shipment of it to the consumers of the

old world. To such an extent was English capital involved in these undertakings that a bad season or two meant the downfall of a great London banking-house a score of years ago, bringing on a period of stringency and liquidation felt throughout the world for several years.¹

Large investments in public and private securities, bringing dependence on the London market, led naturally to the establishment of English banks from the Amazon to the River Plate, which have grown and prospered with the development of the countries they serve, and which are to-day, after a century of operation, among the strongest and most respected financial institutions in the whole world, uniformly paying large dividends and strengthening their position from year to year.

The greatest of the Latin-American republics then are bound to England by every tie of interest and gratitude, from the placing of their crops to the marketing of them at the point of destination; shipment being made very largely in English cars, on English rails, through an English-built terminal to English-built warehouses, whence it is carried in English bottoms and sold—more than half of it—in the English market. And, in return, it is no more than natural that the steamers should carry out English manufactures on their return voyage and that there should be a predominance of English trade, which is because England is situated so well as regards encouragement, development and stimulation.

To a less degree and of later upbuilding is the participation of the other European countries in the affairs of Brazil and Argentina; but their influence is now being extended rapidly and profitably, so that German, French, Spanish and Italian banks and trading houses are found side by side with the English, taking away little or nothing from the share of the first comer, but building up their profits on the exploitation of the growing countries. Conspicuously absent from the list are financial institutions acting for the United States.

Such are the conditions that are to be faced as our own country passes from the list of those constantly seeking loans to the company of the older nations having surplus resources, the investment of which, in foreign undertakings yielding larger profits than those now customary at home, may by the very fact of such larger profits tend toward an easier condition in the market for domestic under-

¹Failure of Baring Bros. in 1890.

takings. For there can be no question that in the less developed countries there are many legitimate opportunities promising a richer return than is usual at home, and that such investments must strengthen our own position and further stimulate our own development. And in that direction follow the extension of trade, the advancement of commerce and industry, and the better realization of that noble dream, the sisterhood of the American nations.

It has been a common complaint for years that our trade relations with the Latin-American countries are not what they should be. In one sense that may be granted, namely, that our efforts in that direction are not what they should be. On the other hand, it might be said that they are as good as could be expected, and that the doubling of our trade in the past decade is evidence that our neighbors are willing to meet us at least halfway. The mere fact that we buy more than we sell is of little moment; the same is true of our European competitors. The Latin-American republics, owing to their relative condition of development, require a large balance of trade to meet their obligations and to provide for improvements; and this state of things may be expected to continue indefinitely. Neither is the absence of vessels under the American flag, often urged as a discouraging factor, any real reason for the relatively poor showing of our trade. Steamers of other nationalities there are in plenty, offering frequent sailings from our ports and excellent accommodations, and, it is to be feared, returning to their shareholders a lower rate of dividend than American investors are accustomed to expect. The decadence of our merchant marine is a question of national importance, but so long as cheap and frequent ocean freights are offered, it has only indirectly an influence on our foreign trade. It is a question apart.

Of more importance is the reason, also frequently urged, that there are no American banks. This is very near the root of the matter. For while in matters of exchange alone, it is entirely feasible under existing facilities to finance any transaction of international trade with our sister republics, the absence of American banking houses means the absence of Americans interested in making loans and investments, in creating those conditions of prosperous development which in turn create a market for foreign goods and lead the beneficiary to turn naturally for advice and for trade to his benefactor. This is the weakest point in our present relations with Latin-

America. Our position is selfish. We offer a surplus stock of goods, not always in a way to suggest interest in continuous relations, and we tender no assistance that can be compared with that offered by our competitors. Investment of capital in legitimate development is the surest way to bind these republics to us in friendly relations and in mutual commerce.

South of our borders, on the American continent, are seventeen republics; in the Antilles, three. Between Texas and the Isthmus our trade is predominant; in the continent of South America we hold a minor place, except in a few great staples; coffee and rubber on the one hand, flour and oil on the other. Yet if from the current statistics of commerce we turn back a couple of decades, we shall find that no great while before Blaine's call for the first Pan-American Congress, this country was second to Great Britain in the trade of every one of the Latin-American republics. Even our next-door neighbor, Mexico, now bound to us by the closest ties of commercial dealing, involving nearly three-quarters of the total volume of her trade, was then dealing to a proportion of nearly three-fifths with England. Central America was neglected, except for the project of an interoceanic canal; Cuba, under the Spanish commercial system, took her trade across the ocean instead of over the Florida Channel; South America was a region relatively unknown, its possibilities so little understood that an American consul at Buenos Aires under the Harrison administration prepared a lengthy report, duly published by the Department of State, in which he pleased the American farmer by the prophecy that owing to poor soil, drought, distance and lack of intelligent labor, the River Plate republics could never become factors in the world's wheat market; could, therefore, never seriously compete with America's staple export!

The two decades since the Blaine conference have brought about the displacement of Great Britain, and the predominance of the United States in the trade of ten of the twenty Latin republics. Those which have come close to us, including two which did not exist at the conference of 1890, have a population altogether of some twenty-two millions. Those which remain aloof have a population of double the first ten, approaching forty-four millions, and an area many times as large, a production and total trade enormously greater. A brief survey of the conditions which have linked

us with the first ten, and of those which have held the greater ten to their earlier relations, may assist us to estimate what may be our progress during a like period of the future.

In the Antilles, the two republics occupying the ill-fated Hispaniola of Columbus have not materially changed during the two decades. Adverse conditions, discouraging to themselves and their neighbors, have kept capital away from Haiti and Santo Domingo and limited commerce to necessities. The helping hand of the Roosevelt administration has insured stability to the Spanish-speaking republic, and similar conditions may be brought about in the French-speaking one. The prosperity of this island in the late colonial period, when it supplied the finest mahogany and logwood to the world's markets, may be duplicated and greatly extended when railroads bring the rich valleys of the interior into cheap and quick communication with the coast, opening up forest areas still virgin, and fruit-growing areas nearer to our Atlantic seaports than any of the present areas of large production. Increased export duties, swelling the government revenues and placing money in general circulation, will raise the conditions of life among the people and increase their purchasing power. That this will be the work of the next twenty years can hardly be doubted; that it will be the result of the investment of capital attracted from the United States rather than England is as certain as that the commercial benefits arising will flow principally in our direction.

In the greatest of the Antilles, the republic of Cuba has made such strides that the figures of its trade in the days of Blaine have no appreciable relation to those of the current year. A prosperous nation, sure of its economic position, and dealing confidently with the social and racial problems that are its colonial heritage, has supplanted the starving and desperate colony of the earlier period. Investment of capital in its railroads and highways, under the stimulus of a great citizen of Canada, accommodation readily accorded for the improvement and extension of its plantations and the safeguarding of its national obligations, have all brought Havana closer to the money market of New York than many a city within our own boundaries.

Coming now to the continent, our southern neighbor, Mexico, is at the same time the most conspicuous example of the expansion of mutual commerce and of the investment of American capital. A

generation ago the seaport of Vera Cruz was the principal gateway to Mexico. But several lines of railroad linking the capital with our own railroad systems have been constructed, the work being financed largely from this country, and stocks and bonds have been listed on our exchanges like those of any home enterprise. The effect has been to change the direction of travel and trade, so that the Mexican district is a part of the field regularly covered by our merchants and manufacturers. It is at present hard to realize that only a few years ago we were almost strangers to this near neighbor, when we were striving to prevent her from falling under the control of European influences, which predominated to the exclusion of our own. The flow of American capital into Mexico has been one of the most notable features of our foreign relations; the exploitation of its vast mineral resources has had the first place, then came the extension of its transportation system, the development of its local transit and lighting, the harnessing of its watercourses to provide power for industrial use, and even experiments in plantations under corporate control. The effect in raising the general level of prosperity, the standard of life, in stimulating local education and enterprise, in enlarging the purchasing power of the country and our trade with it, can hardly be calculated in figures. Recent uncertainties have brought out the statement that American capital is invested in Mexican enterprises to the extent of more than a billion of dollars. Whatever the total may be, the result is evident. Mexico will never again appear in the list of those republics whose trade is predominantly beyond the seas. It is more intimately a part of the commercial system of the United States than if it were actually a part of our body politic. And the change has been brought about without detriment to the interests of older nations. English trade with Mexico has increased, so have English investments. Very appropriately the greatest enterprises for the improvement of Mexican over-sea commerce have been under English guidance. The harbors of Vera Cruz and Tampico, and, even to a more conspicuous degree, the railroad across the Isthmus of Tehuantepec with its modern ocean terminals, which brings Hawaiian sugar to New York at a large saving in the cost of transportation, and built up almost over-night one of the busiest lines of traffic in the world, are enduring monuments to English foresight.

In the five republics of Central America the transformation

has been less rapid. Suffering like the other tropical republics from the economic changes coincident with the modification of their monetary standard, there are yet many problems of social and political organization which have tended to delay their enjoyment of the rich resources that are normally theirs. But the greatest sources of encouragement have been those following the development of fruit cultivation, bringing regular steamer communication with New Orleans, Mobile, Baltimore, Philadelphia, New York and Boston. And there is no reason to doubt that American capital will be employed, as soon as conditions justify the venture, in the much-needed railway extensions that will link their rich uplands with their natural outlet on the Caribbean, and so end the comparative isolation under which they still suffer. In the republic of Costa Rica this work, begun under English capital, and extended to meet the needs of fruit plantations in which Americans and Costa Ricans are interested, has furnished very nearly the system of communication needed.

On the Isthmus itself conditions are peculiar in that the greatest demand arises from the needs of the American colony engaged on the canal work. And here is, of course, the greatest single instance of the investment of American capital abroad stimulating the interest felt in this country by all the republics south of the canal, and promising great changes in transportation and commerce immediately upon its completion, which will come about mainly under assistance from this country. Guayaquil and Callao, now nearer to London and Hamburg by sea than to New York, will be brought almost to our doors; and the flow of capital, which has been most marked in recent years in the case of Peru, may conceivably increase until our investments attain a position almost if not quite as commanding as in Mexico. Southern Colombia, Ecuador, Peru and Bolivia possess latent resources of which the United States stands in need, and which are sure to be developed and exploited to the benefit of those countries as well as our own. Railroads to bring the ores down to the sea, and to reach great tracts of fertile uplands now inaccessible to trade but capable of raising great quantities of cacao, cotton, rubber, sugar and fruits, will stimulate settlement, industry and commerce, along lines which will point toward New Orleans and New York rather than the ports of Europe. The west coast is singularly rich in natural resources, but lacking in population

and funds for developing them. In this work the participation of American capital is assured.

There remain to be considered the more powerful and advanced of the South American republics, Chile, the River Plate countries and Brazil. Here the situation is altogether different. Mineral resources are known and worked, railroads are built as the traffic justifies, agriculture is highly developed, busy cities have grown up, and the work has been done with capital supplied from England and the continent of Europe, which in turn take the greater part of the resulting product. Here in the most prosperous portion of Latin-America the work is already largely done which we are beginning to do in the tropical republics, and the opportunities for investment are those arising in a developed community in many respects like our own, instead of in a new and untried field. Yet here are the greatest accumulations of wealth, the greatest interest in improvements of all kinds, and in some respects the greatest need for American participation if our relations with these republics are ever to gain any prominence. And in these countries there is no American bank, no systematic study of the many opportunities for American investment, and but a meager representation of American business houses; while Valparaiso, Buenos Aires and Rio de Janeiro are full of just such outposts of progress representing all our European competitors, watchful over the needs and desires of twenty-seven millions of people.

It is not to be expected that the United States will ever be as intimately concerned in the development of Chile and Argentina as England and Germany have made themselves. The work is already too far advanced. But the rapid increase of wealth in those countries is constantly leading to new projects affording promise of safe and substantial returns; in which an enlarged interest on the part of American capital will be at once profitable and productive of a feeling of greater cordiality and solidarity on the part of these progressive nations, whose co-operation is so desirable in the defense of American unity and progress. The influence of an American investing interest in these southern republics would be mutually stimulating and beneficial.

In Brazil, great as has been the total of English investment, and advanced as the work of development has become, the future possibilities are incalculable. Within an area greater than that of con-

tinental United States, dwell hardly more than one-fifth our population, served by about one-twentieth our railroad mileage. The improvement and growth of this great nation will be one of the features of the coming century. More closely bound to us by ties of friendship than most of the South American republics, sending us the major part of her greatest staples, the possibilities of co-operation are enormous. The very fact of the extent of the present investment of European countries will tend to turn Brazilian leaders toward seeking a larger share of help from the United States. And every increase in such accommodation will be reflected, inevitably, by an increase in the exchange of goods between the two countries. Trade is no matter of sentiment, and other things being equal, a nation buys where it can get the best terms.

In the earlier days of foreign investment in Latin-America, concessions were sought and granted which were too sweeping to be capable of execution by either side. Venal cabinets and congresses were induced to vote rights which their successors found it politically profitable to repeal, leading to bitter disputes and international complications; conditions were smuggled into such grants which provided for large advance payments to the grantor, with strong probability that the task would prove beyond the power of the grantee, and that a new proposal might be invited after a short interval; while on the other hand rights almost involving national sovereignty and honor were sought and obtained under various forms of persuasion by persons of no responsibility. Such grants would become the basis of unscrupulous speculation and of clamorous appeals to the national government to intervene for the protection of privileges which they would never have dreamt of granting within their own borders, even to their own citizens. The passing of such adventurers is most fortunate. The lesson must be learned that to avoid jealousy and distrust of the foreigner, the native citizen must at least be offered a visible benefit arising from the right he grants, and in some definite proportion to the profits accruing. There should be no more reason for diplomatic complications to arise from an investment in a railroad through a tropical country than from one in connection with a reservoir for a large city in our own country. Mutual confidence and benefit should govern all such enterprises. Greed and exclusiveness, arrogance and supercilious disregard of native rights are responsible for the distrust of the "gringo." The

native sensitiveness of our Latin neighbors, directly responsive to the appeal of sympathy and consideration, should be made a sure support in extending our relations with them.

From national policy and natural position, American capital may be expected to claim its share in the development of the new world, rather than to seek returns in more distant lands, where others will have greater interest and concern. It is through such influences that the broad principle of solidarity which inspired the Monroe Doctrine may be soonest and most surely realized.